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OPINION AND COMMENT

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OPINION AND COMMENT

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This publication of the Bureau of Economic and Business Research of the University of Illinois rests upon the belief that businessmen of the State will appreciate interpretative comments on current events. Because studied opinions on the significance of current trends are often more thought-provoking in the conduct of business affairs than mere tabulations of data would be, the Bureau supplements its research bulletins by producing *Opinion and Comment* as another type of service to the State.

The opinions expressed in the articles are, of course, the personal views of the respective authors and not necessarily those of the College of Commerce or the University.

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Wartime Inflation

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Inflation, in plain words, means a rise in prices. In each of the four major wars in which the [U]nited States has engaged, prices [h]ave more than doubled. Most peo[p]le have assumed that inflation is [in]evitable in wartime, and many [in]dividuals have endeavored to pur[ch]ase large quantities of goods in [a]nticipation of rising prices. The [ec]onomist is frequently asked how [h]igh prices will rise in this war. It [is] impossible to answer that ques[ti]on until we know what financial [po]licies the government will follow. [If] the administration follows poli[ci]es that generate inflation, prices [m]ay reach a high level; on the [ot]her hand, the government may [a]dopt policies and controls that will [k]eep prices from rising to the levels [re]ached in previous wars. Runaway [in]flation is not inevitable in war [p]eriods. Inflation is the result of [go]vernmental fiscal policies and a [sh]ortage of goods.

[W]hy Inflation Is Costly and Unfair

When prices rise, those economic [g]roups which do not receive an in[cr]ease in income proportional to the [ri]se in prices lose a part of their [pu]rchasing power. Fixed income [g]roups such as pensioners and [w]hite-collar workers lose by the [a]mount of the rise; income from [in]surance policies and from interest [o]n bonds shrinks in buying power. [D]uring World War I these groups lost approximately one-half of their incomes. Wages usually lag from six to nine months behind prices, hence most wage earners also lose. One of the unusual features of the present inflation is the fact that some of the organized fields of labor have been able to obtain wage increases in advance of price increases.

Although some businessmen lose during the shift to war production, many farmers, industrialists, and merchants enjoy an enrichment during rising prices; their costs do not rise so fast as prices, hence their margin of profit is greater. These same groups suffer losses when declining prices bring a decreasing margin of profit or even a deficit.

Inflation normally takes buying power from consumers and gives artificial profits to the businessmen. It is the same as a tax upon the buying public, but the revenue does not go to the government unless captured by excess profit taxes. Inflation forces the government to pay higher prices for war materials and leaves the nation with a great burden of debt. A rise in prices not only increases the expenditures for war; it also hinders war production because it allows the people to bid against the government for essential materials.

Inflation is an unfair method of taxation because it injures the poor man, who cannot increase his income, by bidding goods beyond his

ability to buy, and it enriches those who can obtain an unjustifiable profit, only a portion of which is paid to the government.

Causes of Inflation

Inflation results when the money in the hands of the people and the government is increased faster than production. That is, when the people have more money with which to purchase goods and production is not increased in the same proportion, those goods in which a shortage ensues will tend to rise in price. If the increase in purchasing power is slow, production tends to increase and prices rise slowly. But when buying power is constantly enhanced, production cannot be increased in the same proportion, hence prices rise more rapidly.

The primary cause of inflation in wartime is the increase in governmental purchases. Since the war needs are urgent, the government does not bargain for goods, but pays the price necessary to obtain tanks, planes, and munitions. In order to obtain the materials and men for this production, manufacturers offer higher prices and higher wages, more men are employed, and purchasing power is increased. In the last fifteen months employment has increased almost 30 per cent and factory payrolls have increased almost 55 per cent.

One of the fundamental economic truths that must be recognized is that we cannot produce the same amount of consumer goods that we usually buy and at the same time produce war goods. Some 3 to 5 millions of the most able workers are now in the Army, and although we use more women and older men there will be a shortage of man power and especially of skilled workers. Nor can we increase our plants and the production of raw materials to the point of providing both butter and guns. We must give up the nonessential consumer goods and produce war goods. We must transfer one-half of our normal production to war production.

In order to analyze the extent of our wartime inflation it is necessary to keep in mind: first, those factors which increase purchasing power; and second, those factors which increase or decrease the supply of available goods.

Borrowing May Be Inflationary

If our government should borrow money directly from the current savings of the people, the buying power of the government would be increased and the purchasing power of the people decreased by the same amount, hence the general level of prices would not be bid up appreciably. Purchasing power might be decreased either by voluntary bond sales or by paying a portion of the income of each individual in war savings stamps. Purchase of bonds by insurance companies and savings banks is not inflationary, because the funds come from current savings.

If the government borrows from the commercial banks, the effects are inflationary. When the commercial banks purchase government bonds, the assets of the banks are

increased; the banks credit the Treasury with deposits subject to check, and the liabilities of the banks are thus increased by the government deposits. The Treasury draws on the deposits so created to pay for war materials, and the money flowing out for wages, etc., is redeposited at the banks. This process may be repeated so long as the banks can maintain their legal reserves at the Federal Reserve Banks.

During World War I, bank loans and investments increased by more than $13 billions, an increase of 48 per cent. Many people borrowed from the commercial banks to purchase government bonds, and the banks also purchased bonds directly from the government. The people did not give up their purchasing power, yet the government received the right to draw on the banks through the extension of credit. During the same period, commercial, industrial, and agricultural concerns borrowed funds for expansion, thus acquiring rights to draw checks on the banks. Through the expansion of bank credit by several billion dollars during the last war we increased the buying power of the government and of business but did not take this purchasing power from the people; hence inflation resulted.

In the last fifteen months deposits have increased by $6.5 billions (an increase of approximately 10 per cent). A portion of this increase was for defense purposes, but a large part was used for business expansion and for speculation. By controlling both credit expansion and the volume of money in circulation, we may be able to avoid some of the mistakes of previous wars. The Federal Reserve System has taken several steps to check credit expansion. The Board raised the reserve requirements for member banks and in this manner decreased the ability of the commercial banks to expand credit. The Board prohibited the member banks of the Federal Reserve System from purchasing bonds directly from the Treasury. These restrictions, imposed to prevent the financing of the government by credit expansion and to force the Treasury to sell bonds to actual savers, should be rigidly maintained. If tax receipts and bond purchases from actual savings are not sufficient to meet war needs there will be pressure to rescind the restriction and to finance by credit expansion. This is a cowardly way out, and will lead to inflation and its direful wake.

In the month of March, 1942, the Treasury balance fell to a relatively low figure. In order to meet any emergency of this type, Congress passed an act on March 27, which authorized the Federal Reserve Banks to purchase government obligations directly from the Treasury or to sell up to $5 billions of them to the Treasury. This act was not intended to increase the total volume of credit, but was passed for the purpose of allowing the Reserve Banks to furnish funds in an emergency. If the funds are promptly repaid by the Treasury from the receipts of taxes or of actual savings, this method of borrowing will not be inflationary in character.

Consumer Purchases in Anticipation of Rising Prices Are Temporarily Inflationary

Wholesale prices in the United States have risen approximately 22 per cent over the 1939 level. Farm products have increased almost 60 per cent; household goods, 20 per cent; building materials, 30 per cent; and foods, 20 per cent. The general cost of living has risen 18 per cent above the 1939 level. Much of this increase occurred before the United States entered the war. Part of it resulted from increased employment and part from advance buying by individuals.

Much of this forward buying was of the installment-payment type. This form of buying creates an immediate demand for goods much greater than the increases in payrolls and production. Installment buying has tended to quicken the price rise because it allows the people to purchase more than their current incomes will pay for; in the long run, however, it does not add to total demand, since future incomes must be used to pay for goods previously purchased. Forward buying will not have serious inflationary effects in the long run unless credit is constantly enhanced.

The Board of Governors of the Federal Reserve System has taken steps to check installment purchases by requiring a larger percentage of cash to be paid and by shortening the period of time allowed for payment. This is a step in the right direction, but the requirements are not drastic enough to check installment buying. The restrictions which the WPB has placed on the production of most durable consumer goods will be far more effective in this respect.

Increasing the Volume of Money in Circulation Is Inflationary in Effect

During the Revolutionary War, when Congress was unable to secure sufficient funds by taxation and borrowing, it resorted to the printing press. Since the people did not give up any purchasing power and the government spent great sums in paper money, prices rose until the "Continental currency" was worthless. At the time of the Civil War, greenbacks were issued, but their volume was controlled after inflation became serious. During World War I, money in circulation increased about 27 per cent, from \$4 billions to \$5.5 billions, but the great increase in buying power came from bank credit expansion.

There is not much danger that paper money will be increased seriously in this war unless taxation and borrowing fail to supply the necessary funds. Since 1939, the circulating medium in the United States has been increased from \$8.5 billions to \$11.5 billions (an increase of 25 per cent). Although some of this increase has been hoarded, the increase has had some inflationary influence and it can be used to support a credit expansion of several times the amount. If the new currency is used as it was in the last war as a reserve for a large amount of bank credit, we may expect an

ıflation comparable with that in the revious period.

Paper money issues have been sed by many nations during war eriods and have usually led to dister. One of the best methods of stimating the economic strength of our enemy is to follow his paper ıoney issues. When nations that re unable to secure necessary reeipts by taxation and borrowing esort to the printing press, the peole have slipped in morale and their ar efforts will likely decline.

Taxation Will Help to Check Inflation

If we could impose upon the peole taxes equal to the war expendiures, prices would not rise appreably, because buying power which ormally would have been spent for onsumers' goods would be transerred to the government and used purchase war goods. Hence there ould be no increase in total conumer demand and no additional ıoney to bid up prices. During war eriods, for fiscal, political, and ecoomic reasons, it is practically imossible to raise money by taxation s fast as the government expendiıres are increased.

At the present rate of expendiıre, the government will spend in e fiscal year ending June 30, 1942, pproximately $26 billions, or more an one-fourth of our national inome. Of this amount only $12 llions will be raised by taxes, leavg a deficit of some $14 billions to financed by borrowing.

The budget for the next fiscal ear, ending June 30, 1943, originally called for an expenditure of $55 billions, but this estimate has already been raised to $67 billions. This means that one-half of the national income will be spent for war goods. There is little doubt that Congress will appropriate more than $67 billions—probably nearly $80 billions—for the fiscal year ending in June, 1943. Thus, unless taxes are increased, the Treasury must borrow about $4.25 billions from the people each month. It is estimated that the present taxes will bring in only $16 billions, leaving approximately $51 billions to be borrowed. If tax receipts are not greatly increased, this deficit will be much larger because the expenditures will probably amount to $80 billions.

In his message to Congress on April 27, 1942, President Roosevelt said: "To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate. . . . . Under the proposed new tax law, we seek to take by taxation all undue or excess profits . . . . discrepancies between low personal incomes and very high personal incomes should be lessened; and I therefore believe that in time of this grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than $25,000 a year. . . . . I earnestly hope that the Congress will pass a new tax bill at the earliest moment possible."

Taxation is the key to the repres-

sion of price rises, but Congress has not been able to agree upon a tax bill. A sales tax of 5 to 10 per cent has been debated in committee, along with higher income taxes and higher excess profits taxes; but while Congress has been debating, income payments have been larger and prices have been rising. The new tax bill should be directed toward decreasing consumer buying of nonessentials and encouraging war production. If inflation is to be checked now, drastic tax measures should be passed and large sacrifices should be demanded from the people.

The only fair method of financing a war is by taxation and not by inflation. By paying taxes according to our ability to pay, we can make the burden more equitable and much lighter in the long run because the carrying charges will be much lower.

Canada, England, and Australia are meeting almost 70 per cent of their war expenditures by taxation. Germany and Japan are probably meeting more than that proportion by taxation, in addition to forced labor and forced savings. Russia is drafting every available resource in her war effort.

Rationing and Priority Controls

The chief purpose of rationing is to secure needed supplies for war purposes and to ensure a fair distribution of essential consumer goods when the supply is inadequate. The government has taken the entire supply of those materials that are essential to war production, such as steel, aluminum, tin, lead, zinc, rubber, etc. Producers for public consumption will be allowed only such amounts of these materials as are not needed for war purposes. The government can set prices for the goods needed, but if wages and materials are advanced in price, producers cannot maintain production unless they are reimbursed for their greater outlays.

By rationing consumers' goods which are scarce, we can maintain a fairer system of distribution. If our inadequate goods are not rationed, the people with large incomes may outbid the lower income groups, the result being hoarding for the rich and inadequate supplies for the poor. Rationing is necessary to repress price rises in the materials that are scarce and to hold down bidding by the people against the government.

Price Controls Will Help to Check Inflation

There are three types of price controls: First, "Selective Controls" (or piecemeal controls) which seek to control selected goods and services. Selective controls were used in the United States during World War I and have been used in England during this war. Experience has shown that selective controls tend to repress price rises for some commodities, but prices not controlled may increase rapidly.

The second type of price control is known as "Progressive Controls," or gradually applied ceilings starting with manufacturers' prices and progressing to wholesale and then to retail prices. Progressive price

ontrols have proved to be too slow nd to be applied only after prices ise.

The third type of price controls ; the over-all price ceiling. Price-eiling control is supposed to be the uickest and the most equitable olicy for checking price rises.

When Canada entered the present var in September, 1939, her officials ecided that a price rise would en-ourage production to the point of ull utilization of men, plants, and esources. The government pursued . policy of heavy taxation and bor-owing from current savings as a leterrent to inflation. By the fall of 1941, prices had risen 40 per cent nd runaway inflation was imminent. The Prime Minister by proclama-ion placed an over-all ceiling on all prices, rents, and wages. Retail prices were frozen at the maximum prices which prevailed during the our weeks of September 6 to Octo-er 11, 1941. This ceiling applies to irtually everything the average itizen buys. Prices in Canada have emained relatively stable since the reezing, but inflation has also been hecked by a taxation program of early 75 per cent of expenditures nd by rigid industrial priorities nd rationing.

In the United States we have xperimented with all three types of rice controls. On April 11, 1941, he Office of Price Administration nd Civilian Supply (OPACS) was stablished by executive order. The Administrator was empowered to etermine and publish, after proper ivestigation, such maximum prices, ommissions, margins, fees, charges, nd other elements of costs or prices of materials or commodities as he from time to time may deem fair and reasonable and to take all lawful and appropriate steps to facilitate their observance.

On November 1, 1941, Price Administrator Leon Henderson was empowered to establish fair and equitable ceilings on prices, and in defense areas on rents for housing accommodations. He was directed to give "due consideration" to prices prevailing on October 1, 1941, but to make adjustments for such factors as changes in costs of production and transportation. Critics of the measure thought that the bill did not provide any effective method for enforcing the controls because the Administrator could not license the vendors.

On January 27, 1942, Congress approved the "Wartime Price Control Bill." This bill vested in a single administrator (Mr. Henderson was retained in that position) the power to fix prices of all commodities except farm products. The Administrator was empowered to license wholesale and retail dealers in any commodities and to revoke licenses for violation of the law. Violators may be subjected to a $5,000 fine and a year's imprisonment. An emergency court of appeals was set up to review cases of persons aggrieved by the Administrator's rulings as to prices or by revocation of licenses.

In his message to Congress on April 27, 1942, the President recommended ". . . . ceilings on the prices which consumers, retailers, wholesalers, and manufacturers pay for the things they buy; and ceilings

on rents for dwellings in all areas affected by war industries. . . . To keep the cost of living from spiraling upward we must stabilize the remuneration received by individuals for their work."

The Office of Price Administration ordered rigid controls on prices on April 28. The general maximum price regulation set the highest prices charged in March, 1942 as an absolute ceiling on approximately 75 per cent of the articles consumed in the United States. The only exceptions are a limited list of food commodities. The regulations require that: (1) Beginning May 18, retail prices, with a few exceptions, must not exceed the highest levels which each individual seller charged during March, 1942; (2) Beginning May 11, manufacturers' and wholesale prices and the prices for wholesale and industrial services must not exceed the highest March levels; (3) Beginning July 1, no one may charge more for services sold at retail in connection with a commodity than he charged during March; (4) Effective immediately, all retailers, wholesalers, manufacturers, and sellers must preserve existing records of sales made during March for maximum pricing purposes when the ceiling goes into effect; (5) All retailers and wholesalers are to be considered licensed effective as of the date the ceilings are applied.

The recent price law will tend to check prices from rising as fast as might otherwise occur, but no price controls can be really effective if the fiscal policy is inflationary. If you give the people more money with which to buy and at the same time decrease the volume of goods available, price controls are almost impossible to enforce. Price officials can prohibit the merchants from marking up their inventories, but if the costs of production rise, the finished goods must rise commensurately or the retailers will not handle the merchandise. The price administration will be under pressure to allow consumer prices to rise as fast as production costs rise.

There are several factors at the present time which should make price controls on food more effective than during World War I. The droughts in 1914 and 1916 resulted in a dearth of farm products at a time when Europe was purchasing large quantities in the United States. Bidding by the different countries caused the prices of a number of food products to rise to high levels, and hoarding of goods and speculation in the United States aided the maintenance of these high prices.

We are entering this war with large surpluses in the United States, in the British colonies, and also in South America. If the food supplies are carefully handled, there should not be a shortage of food for the allied nations and the price of food should be more easily controlled. With the large surpluses of cotton, corn, and wheat now owned or sealed by the government, a supply can be released when the prices of these commodities tend to rise too fast. As long as the United States and the British colonies have surplus food products, we can feed England and still prevent farm products from rising to runaway levels.

The most serious threat of inflation at the present moment is to be found in the temporizing of Congress. The farmer is demanding higher prices for his products; businessmen are endeavoring to extract great profits from production; labor is demanding higher wages as prices increase. Increasing employment and payrolls are adding to the buying power, but Congress seems unable to agree upon a tax bill to absorb the extra incomes and to save the credit of the United States.

Leon Henderson is endeavoring to hold prices down, at the same time that our fiscal policy is allowing prices to be bid up. The real test of inflation will come when borrowing does not bring in the needed funds from current savings. If we tax drastically, we may check inflation. But if unwisely or weakly we expand commercial bank credit or issue large quantities of paper money, inflation, with all its evils and injustices, will inevitably follow.

Stock Control and Customer Satisfaction

R. V. Mitchell

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All of us, as customers of retail stores, expect certain benefits and satisfactions to accrue to us from the manner in which the retailer manages his stock. We fully expect the store to have in stock what we want, when we want it. This means that the retailer must anticipate our wants before we express them by coming to market and asking for these things ourselves. He must be sensitive to our varying desires and keep up with the rapid shifts in the things we want. As our tastes veer from one color to another, he notices the change almost before we are aware of it and modifies his stock accordingly. As a particular fabric becomes more popular than another, he increases his stock of the preferred fabric. He also notes variations in the quantity of each size needed by his own particular customer group and sees to it that his stock conforms to the size characteristics of his customers.

In addition to expecting the retailer to have on hand what we want, we also expect that he will have it there ready and waiting for us when we want it. As the seasons change we suddenly shift in our desires and, almost as though acting upon a signal, flock to market to get spring or summer or winter attire, to buy for holidays, to buy certain foods, and so on. Seldom are we disappointed by our retail dealers. They have prepared for us, and we

find the items we want waiting for us on their shelves.

This minor miracle of business has been happening so long and so consistently that it no longer astonishes us; in fact, we not only accept it as a matter of course—we even complain when it doesn't happen. At times, however, we may wonder how it is brought about.

To accomplish it, there must be planning, observation, study, and work. Retailers are impelled to these efforts because they are necessary to customer satisfaction; and customer satisfaction means more sales and more profit for the merchant. They are also forced to do this job well because not to do so would involve them in certain disadvantages and losses. They may have too much capital invested in slow-moving stock: that is, their capital is invested in stock which does not sell well and they do not have capital to invest in stock which would sell better. Also the less popular items occupy valuable selling space which might more advantageously be used to display better-selling items. Their rate of stockturn is slower; translated into other terms, this means that the average time their stock is on the shelves is increased. The longer stock is on the shelves, the more it deteriorates; it becomes soiled, dirty, and less attractive. Stocks of merchandise which has a fashion element may become of less value to customers, and when definitely out of fashion must be sold at a sacrifice. As customer tastes change, certain items rise in popularity and others drop, with corresponding changes in values. So for his own salvation the merchant wants to do this task well.

The device which is most commonly used to bring about these positive gains and avoidance of negative losses is *stock control.*

Stock control is a tool of good merchandising which helps to increase profits and decrease losses. It adds to customer satisfactions. Most simply and basically stated, stock-control systems gather for the merchant information concerning his stock. Analyzing and interpreting this information and then acting in accordance with the interpretation enable him to accomplish the desired results—to reach the goals of customer satisfaction and personal profit.

The more progressive merchants early recognized the advantage of reaching these goals and set out to devise systems which would help in attaining them. Other merchants have been content to want the results but have been unwilling to do the work necessary to get them—they have *wished* for results but haven't *worked* to get them. Still others have not been sufficiently informed about the technique of stock control to recognize that there are certain well-established systems or techniques for doing this.*

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*To contribute to information about this important tool of better merchandising, the Bureau of Economic and Business Research of the College of Commerce, University of Illinois, has just released a study entitled "Stock Control Methods." This study, written by H. W. Huegy and R. V. Mitchell, is published as Business Studies—Number 1. It describes in nontech-

Even those of us not engaged in the business of retailing may be interested in knowing how this task is accomplished; hence a brief sketch of the basic systems will be given.

The two basic methods for attaining stock control are:

(1) Physical-inventory systems,

(2) Perpetual-inventory systems.

As an example of how these systems work, a brief sketch of what a merchant using one of the physical-inventory systems does will be given. This merchant takes his regular inventory, but for purposes of stock control he classifies the stock so that all related items are grouped together. He then knows his stock, by smaller groupings, at the beginning of the period. As additional purchases are made, he classifies the purchases according to the same classifications used for taking the inventory. Whenever he wants to determine how the stock is moving he simply takes another inventory. The sales of each classification are then indicated by the following computation: To inventory at the beginning, add purchases for the period, then subtract inventory at the end; the resulting figure divided by the average inventory (the sum of the beginning and the ending inventories divided by two) will give the turnover rate attained by this group of merchandise for the period. If the turn is too slow, either the stock is excessive or sales are not adequate. Stock must be reduced or sales stimulated by additional promotion, advertising, and sales effort. It may even be necessary to reduce prices to encourage the goods to move.

The essence of the information yielded the merchant is that customers are not being attracted by the merchandise and an indication is given that something should be done to correct the situation. By breaking down the total stock into smaller divisions, the difficulty is localized and can thus be more readily corrected; whereas, if the stock is viewed as a whole, the real difficulty is not readily apparent and correctives are difficult to apply to the whole.

More detailed information will require records of returns and, if departmental records are to be kept, transfers from one department to another must be taken into account. The dollar figures can be kept at either cost or retail, depending upon the store methods. They can even be kept in terms of physical units if the stock is such that this method is suitable.

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nical language the more important types of stock-control systems and tells what they will and will not do for the merchant. It also presents a step-by-step method of installing a system which eliminates all nonessentials and is adapted to the needs of smaller stores or of stores which have not previously used a system. This system is adequate to give the major benefits of stock control without demanding the elaborate record-keeping which some of the more complex and detailed systems require. This device could be used at first, and later, when more extensive information was desired, refinements could be added gradually. This procedure seems desirable because it is probably better to start with a simpler system which will be maintained rather than with a theoretically better system which will be abandoned because of unwillingness to keep up the complex records.

When a merchant changes from the physical-inventory system to the perpetual-inventory system he gains to the extent that he can determine how a given classification of stock is moving at any time. Under present conditions, this is of paramount importance, for it enables the merchant to make adjustments quickly, as the need arises. To gain this advantage, however, he must keep a record of all sales. Hence all sales slips must be coded with the proper merchandise classification, or some other device must be employed to keep sales information and enter it on the records. Inventory at the beginning at sales price plus purchases at sales price less sales equals inventory at the end of the period at sales price. Of course, records must also be kept of returns, transfers in and out, markdowns, and discounts. When a physical inventory is taken it can be compared with the book inventory and thus stock shortages may be revealed. This is a further advantage to be gained from this more elaborate system.

In most stores it is neither necessary nor desirable to keep detailed controls of the entire stock. Rather, the more troublesome portions of the stock are controlled in detail and the less troublesome portions only in general or by the physical-inventory method.

In any event it should be recognized that stock control is not in itself an end to be sought. It is merely a means to an end—successful merchandising. The information supplied by stock control must be analyzed and used to avoid out-of-stock conditions with resultant customer dissatisfaction; to guide the buying so as to have full stocks of better-selling items and to reduce stocks of slow-selling goods; to guide the sales promotion in order to know what stocks need promotional help and when to apply it; to reduce the number of price lines, styles, colors, and sizes carried, yet retain enough for adequate assortments.

Although details of how the task is accomplished are of interest only to merchants, customers are interested in the results. Because of the merchants' responsibility as purchasing agents for the families of America the proper performance of their retailing task is important to the satisfaction and well-being of customers.

The Aims and Standards of Business

(An address delivered before the faculty and the students of the College of Commerce)

Oscar G. Mayer

President, Oscar Mayer & Co.

No word other than "business" (i.e., "busy-ness") could quite so well describe man's bustling, eager activity in the service of his fellows. The field of business is very broad, comprising not only the extractive, manufacturing, and distributive industries, but also transportation, publication, communications, and banking. Many phases of agriculture must be included. Some of the professions are a part of the business structure, appearing as engineering, architectural, dental, and medical enterprises to offer their services to the public. Even the operation of an institution like the University of Illinois involves many buying and selling transactions of a business nature, and I know that its administrators possess a very healthy regard for such business considerations as careful purchasing, accurate records, and lowest possible interest rates.

Business, broadly defined, is the orderly creation of products and services desired by the public, so managed that the enterprise is self-sustaining. Only a few of these enterprises deal with the basic necessities of man (viz., food, clothing, shelter, and fuel). A much larger number deal with the desirable things of life such as amusements, travel, and sports; others, with articles like slot machines, which are desired by a small section of the population even though they carry no social benefit.

A business generally originates with a man who feels that he has developed a product or a service which others will buy. He can never be quite sure of this in advance and his most important problem after making his product is to sell it, i.e., persuade the public to buy. (You see I do not entirely subscribe to Ralph Waldo Emerson's famous mouse-trap theory.) I think there never is in the first instance a *public demand* for anything, since the public never quite knows what it wants or needs until the new article is offered by some ingenious soul. I don't believe that people fretted much about the telephone until the contraption was presented to them, and even then they looked around to see what the neighbors were going to do about it. We all remember from our reading with what scepticism and even revolt the steam carriage was greeted, some population centers going so far as to forbid the railway to pass through the town. But once a useful commodity gets a toe hold, the novelty and luxury of today may quickly become the necessity of tomorrow.

Throughout the history of indus-

try the enterpriser or entrepreneur (as he is exotically called in the textbooks) has had his troubles. He is by virtue of his ingenuity, courage, and perseverance—often against heavy odds—entitled to the appreciation of society for the blessings which he has in many instances forced down its throat. Looked at in the early stages, the relationship of labor (i.e. helpers which the entrepreneur needed) to the enterprise is especially clear. They were brought in to help when the boss found himself with more work than he could handle. They worked with the tools and according to the methods supplied them but naturally assumed no responsibility for the success of the enterprise. It still remains true that if anything goes wrong with a business it is management and not the workers who are to blame, for it has been my experience that workers are very willing to do their part within the limits of the tools and methods provided for them.

Business is both an art and a science, and most successful managements possess definite techniques quite peculiar to them. Business leadership is, and always must remain, in the hands of a relatively small proportion of the population which has the *knack* of bringing together the products of nature and the energies of man in such a way that useful products *continue* to *emerge* over a period of time. Like "Dad," the business executive is somewhat taken for granted. He is deeply immersed in the constant stream of problems confronting him. While he loves to advertise his products, he generally has little desire and less aptitude for talking about himself. Yet it is axiomatic that society cannot dispense with his services, for he guides the productive process which must go on no matter what happens in world or domestic politics.

High practical skills are naturally developed by businessmen through their long, intimate, and interested association with their specialized problems; but the knowledge they acquire does not generally find its way into the textbooks. Many years are needed to achieve mastery of the technique of a larger enterprise, possibly as long, shall we say, as it takes to produce a professor at a university.

The two things which any competent business executive considers paramount are that he must produce efficiently and that he must serve his customers well to stay in business. The laws of survival in business are extremely severe; only 7 per cent of all businesses, so the statisticians say, live to celebrate their tenth anniversaries. The problem of maintaining an income in excess of outgo may be very complicated, often calling for intricate accounting systems and tabulating machines to record the myriad of transactions which must be controlled in a larger business. If the final yearly statement shows no earnings, and especially if this is a repeated process, a pall descends upon the enterprise. Bankers recognize it as no place for their depositors' money, and stockholders try to sell out because they can see that without earnings a business is a bleak and dangerous proposition. Far from being sordid

and reprehensible, earnings or profits are absolutely essential to a business enterprise. Not only must equity capital receive its remuneration out of profits, but new capital assets and working capital must to a large extent be provided by this route.

Profits in a competitive enterprise system are not a charge upon the public; they do not arise out of asking high and buying low. In the packing industry (to use an illustration with which I am familiar) the profits of about 600 concerns, large and small, are published each year by the United States Department of Agriculture, not individually, but by composite groups. Regularly each year a portion of the industry reports earnings, whereas another section is below the line with losses. They all buy their livestock and other raw materials in the same open markets; they sell to the same buyers. Why is it then that some concerns make money while others lose? The answer lies in the ability of the better managements to recognize the principles of economical operation under which waste is reduced to a minimum, without penalty to anyone. This is accomplished largely through a full, efficient flow of product through the plant and through brisk but economical selling methods to bring about lower unit costs. Thus the only proper definition of profit is that it is the *measure and reward of the superiority* which a concern possesses over others in the same field. Profit is a worthy and deserved residuum which is begrudged only if misunderstood.

It is interesting to note that profits are not necessarily related to invested capital. The rule that capital is worthy of its hire is valid only so long as that capital is well managed and has protected itself against obsolescence through adequate charge-offs. If profits were always a function of invested capital there should be no more remunerative enterprises in our country than the railroads. The fact that as a group they have not been profitable in recent years indicates that their superiority has been successfully challenged by other means of transportation.

Since management is the key to the superiority which creates profits, the high salaries sometimes paid to good business executives can readily be defended. The salaries are earned by these men because their policies and energies are clearly traceable in the final results, and because their abilities are known and in potential demand by other concerns familiar with the contribution which they can make.

But it must always be borne in mind that salary figures seen in the newspapers are gross figures before the inescapable deductions for income tax. If corporate earnings were released in this form, they would be considered completely deceptive. Only the net after taxes really belongs to the recipient, and he should be given strong social credit for the often sizable tax contribution which he makes toward the support of his government.

Business executives as a group feel their responsibilities very

keenly. They recognize the loyalties they must maintain toward their customers and their employees. They generally work under great nervous strain, particularly in these times. The unpredictable future of their businesses is a constant concern, as is apparent from newspaper reports concerning the prospects of many non-defense industries. You can rest assured that often more broadhanded policies would be pursued by businessmen if they had any way of knowing in advance how things were going to turn out. In the packing industry the final results are never known until the close of the year because of the uncertainty of inventory values.

The industry of which I am a member is intensely competitive. From 10 to 25 packing house salesmen, each representing a different company, regularly call on representative dealers in a large city. Meat packers are geared up to this competitive struggle until it becomes second nature and they could not operate otherwise. The lower seller, who was considered the root of all evil in the fatuous days of the N R A, is a challenge to us in the packing industry. If he can actually sell his products more cheaply and still progress, he has a knack which we should like to discover and emulate. The low seller, provided he does not exploit labor in the process, is generally a progressive who forces his competitors to adopt better methods and by his pace benefits his industry and society. Henry Ford is perhaps the most outstanding example of this type.

Every businessman goes through an interesting period of development. He soon discovers that he can stay in business only by adhering steadfastly to high principles of business conduct. It is inspiring to observe how well these principles are maintained by modern successful business and to realize that their observance is the foundation of its success. By virtue of the integrity of their products and of their relations with their customers, concerns have flourished and grown, sometimes to great size; the dependability consistently manifested by any of our larger companies was probably one of the main factors in its growth. Thus corporate size should never of itself be condemned in a country as large as ours, provided that a competitive situation (as in the case of the automobile industry) or a regulated situation (as in the case of A.T.&T.) exists. A big country like the United States of America requires some big businesses because of the sheer magnitude of its production and distribution problems.

What are some of the principles and policies almost universally found in the credo of modern business?

1. There must be integrity in its product and in its dealings with its customers and employees. Without fundamental honesty no business can be maintained for any length of time. Scrupulous observance of contracts is one of the most sacred principles of business. Concerns which will not stand back of their word can get nowhere.

2. Good businessmen pay close heed to the universal law of Action

nd Reaction, for this great law of ature operates as definitely in the ield of economics as it does in hysics and in morals. One must ive before one can receive. This rinciple is typified in no finer way han in the practices of that great conomic philosopher, Henry Ford, vho repeatedly had the courage to educe his prices below his costs in he faith that the public demand for is cars would thereby increase, hus reducing his costs and allowing is business to prosper. He was roved right many times, and from im many another businessman has earned the priceless principle of the eduction of unit costs through dded volume.

3. Business has been one of the vorld's great influences in the pronotion of consideration for and ourtesy toward one's fellow men, ecause of the mutually beneficial elationships which it creates. The onsiderate approach required in he buyer-seller relationship has had highly moderating and civilizing nfluence upon society and has pro-uced for many the most enduring riendships of their lives.

4. Fairness toward competitors is n ethical concept of rather recent rigin which has become thoroughly ngrained in good businessmen. In ome industries it has been imple-nented by trade practice codes vhich have eliminated many unfair ompetitive methods. The well-nigh niversal practice of advertising and elling a product solely on its merits nd without derogation of competi-ive goods is one of many examples f this principle.

5. Constantly increasing consideration for the worker's well-being is further evidence of the regard of modern business for the Golden Rule. Closer attention than ever is paid to the health, safety, and comfort of employees. Recent years have brought insurance protection of all kinds—group, life, health, and accident—hospitalization, and pensions to supplement Federal old age benefits. Vacations with pay are today almost universal and afford the worker and his family the incalculable benefit and pleasure of going out over the nation's highways to distant regions to learn of the beauty, vastness, and greatness of our land. The effect of vacations on employee morale and loyalty is clearly discernible.

6. Research, which in earlier days was indulged in only by the universities, is now recognized by most industries as a part of their daily responsibility. Thousands of laboratories maintained by such splendid organizations as duPont, Bell Telephone, General Electric, and General Motors are making constant contributions to pure as well as to applied science, and have a profound effect upon our standard of life. American industry realizes that we do not know much about anything until we have contrived to measure it—that nothing is being done as well as it can be done, and that nothing of moment can be discovered or accomplished unless someone persistently concentrates upon the problem. Thus we see American industry committed to the high ethical concept of constant improvement of product, oftentimes with a lowering of price.

7. Enlightened business cannot but be fully in accord with the thesis that our free enterprise system, under which the United States has become the greatest industrial nation of the world, is best maintained under definite umpirage on the part of government. And most businessmen recognize that price agreements are socially bad because they create a condition of complacence and stay the urge toward progress and improvement.

8. Modern business realizes that our democratic institutions cannot be maintained in the future unless industry succeeds in providing jobs at adequate wages for all who can and will work, so that the goods and services produced will be freely bought and moved into consumption. Only in this way can the flow of money be kept up to create a sustained prosperity. In my estimation, the recent Wages and Hours Act has helped in this respect in that it has forced the reemployment of millions of idle people who were being kept out of jobs because of the longer hours given to those with jobs. The more general employment thereby attained has served to broaden purchasing power. Although for a time the Act did penalize those with jobs by shortening their work-week, these penalties have gradually been cut down through wage increases. Our social planners should remember, however, that the forty-hour week should not be considered as absolutely fixed, for a national condition might well arise to justify the lengthening of the normal work-week.

9. Business executives are charged with the responsibility of furnishing "tools and methods" for their employees to work with, and quite an array of "tools" is necessary these days before a worker's hands and brain can be put to use. In most industries from $3,000 to $10,000 worth of capital must be invested in plant, inventory, and accounts receivable for every man put to work. Each worker must literally be surrounded with capital before he can be effective, so closely are capital and labor bound together in this modern age.

10. Industry supplies to its workers a social discipline and education of unmeasured and generally unappreciated value. The formal education of the population covers only relatively few years of life and occurs in the period of childhood and youth when useful craftsmanship is difficult to teach. Even our college boys and girls, graduating at 22 with a feeling of "knowing that they know," are generally taken aback when they run up against the precise requirements of business. The most important educational period in people's lives occurs *after* they enter business. Here punctuality, cleanliness, and orderliness are insisted upon, as well as precision and the development of skill. The tendency of our day is, in my opinion, to interfere somewhat too much with the social discipline furnished by business management, whose function in this field is undeniably important.

This incomplete recital of its aims and standards has, I hope, conveyed to you something of the importance and dignity of business in human affairs. The most important activity

f society is the process of production and distribution, of which business is the principal expression. ar from being thought of as sorid, it should be accorded the highst respect, as the means by which nation not only lives but through hich it can express its best houghts, energy, and ideals. Anyne familiar with only *one* imortant industry cannot but thrill the wonder wrought before his yes by the indescribably ingenious rocesses and machines employed. Vhen to this accomplishment is dded the miracle of quantity production, by which so many products f American industry have been nade available to almost everyone, he endless beneficent achievements f industry cannot fail to be aparent. Only by the most ingenious ndustrial methods can our population of 132 million souls be sustained, and our freedom maintained. Our private enterprise system has rovided the risk-taking initiative nd has mobilized the tremendous energies necessary to obtain this result.

The efficiency of American industry has all but wiped out class distinctions in our country. In almost very case, the products available the masses are virtually as serviceable and attractive as those intended for the higher income roups. We all use the same autos, adios, nail polishes, and cigarettes, nd attend the same movies and peras. An equalizing process such s this holds out the best prospect or the perpetuation of our democratic way of life.

Finally, it must be apparent that ommerce and industry, together with agriculture, are directly or indirectly the mainstay of all our governmental and cultural institutions. They create and distribute the income, both corporate and personal, out of which all tax payments are made, and without which our governments—Federal, state, and municipal—could not function. Directly or indirectly, business supports all our institutions, our professions, our schools and universities—state and private — our hospitals, museums, and churches. Would that a modern Emerson could put this truth into adequate words so that all could fully understand how our society lives and whence its blessings flow.

Finally, I wish to say to you young aspirants in the field of business that it offers great opportunities for you if you will use your eyes, your ears, and your heads. All business is simply enlightened common sense applied to a specialized group of facts which can be studied and mastered. There always has been and always will be a scarcity of able men in business, men who will do a job without prodding or help from their superiors. Never forget that business is an intensely human affair, replete with kindly contacts and friendships, and that advancement depends greatly upon one's ability to team up with other men and gain the respect of one's superiors.

You will find that business can bring you all that is needed to attain life's highest fruition, which I conceive to be the rounded development of the individual, duly manifesting itself in consideration for, and service to, one's fellow men.

Labor Problems in Wartime

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The recent establishment of a War Manpower Commission with Mr. Paul V. McNutt at the head has brought rather forcibly to the public attention the urgent necessity of mobilizing the nation's man power for our war effort. What are the labor requirements for the all-out war program we have undertaken and what human resources do we have available to meet this demand?

In January of this year (1942) there were about 41 million workers in non-agricultural employment out of a normally gainfully employed population of 55 to 56 millions. About 5 millions of these were employed in war industries. The new war program outlined by President Roosevelt will require from 15 to 20 million men in war work by the end of 1942, 20 to 25 million by the end of 1943, and probably 30 million by the end of 1944. Is there such a labor force available, and if so from what sources must it be drawn?

At the present time we have about 7½ million workers directly engaged in war work. The United States Employment Service estimates that the total labor force of the nation at the end of this year (1942) will be about 58½ million persons distributed as follows: 4½ millions in the armed forces; 52 millions employed; 2 millions unemployed. Of the employed, 8 millions will be in farm work, 26½ millions in civilian nonwar work, and 17½ millions in war work. If this estimate is correct, some 10 million additional workers will have to be recruited for war work this year. Probably 7 millions at least will come from shifting from civilian industries to war industries. Another 1½ millions may be recruited from the ranks of the unemployed, and the remaining 1½ millions from new workers entering the labor market—women, youths, older workers, negroes, and aliens.

The tremendous problems thus facing Mr. McNutt's new War Manpower Commission in the recruitment, training, and placement of this huge labor force must be apparent even to the casual observer. Specific problems which the Commission will meet at the outset will be how to prevent competitive bidding (pirating) for skilled labor by war contractors, how to avoid discrimination against negroes and aliens, how to secure the establishment of war work in regions where surplus labor exists, how to distribute the highly skilled workers, how to decide whether a man's skill is more important in the field, the factory, the office, or the armed forces. The Commission has announced that it will approach its task at first on a voluntary basis.

ıt it is altogether probable that ınsiderable compulsory shifting of ıbor and rationing of workers to ar industries may be necessary in e near future. Great Britain has d to resort to compulsory rationg of labor as the final solution to is problem of manpower mobilition.

The question of working hours in artime is complicated by the fact at we must reckon with two kinds hour standards,—the minimum andards established by law and the tual standards established by trade ıions or the competitive system. ırther complicating the hours oblem are such questions as the ɔtimum working week and the efcts of overtime rates upon producɔn, costs, profits, and employment. here are two Federal statutes inɔlved in this problem—the Fair abor Standards Act and the Walshealy Public Contracts Act. The air Labor Standards Act provides ɔr a maximum straight-time workg week of 40 hours, with time and ıe-half for hours in excess of 40. he Walsh-Healy Act provides for standard 8-hour day as well as a -hour standard week. It is exceedgly important to note that neither these Federal laws places any ıtside limit on the length of the ɔrking day or working week. *Any ımber* of hours per day or per eek may be worked without violting these laws so long as time and ıe-half is paid for the hours ɔrked in excess of 8 per day or 40 r week.

If it is conceded that a work week nger than 40 hours is necessary to aximize production, the only real issue involved in these laws is the effect of the time and one-half provision on war production. Does it involve excessive and "prohibitive" costs to management? At what point should time and one-half begin? These questions can be answered only by analyzing them in relation to (1) the unemployed labor reserve; (2) employer costs and selling prices; (3) employee efficiency, productivity, health, and safety. If the overtime rates merely cause management to add extra shifts rather than to work present personnel overtime, costs will not be increased and no retarding effects upon production will result. Of course this conclusion assumes that the necessary labor supply for the extra shifts will be available.

But suppose a real shortage of skilled labor does develop in war industries, will overtime rates starting at 40 hours result in "prohibitive" costs to industry and retard war production? This does not seem likely. In view of the fact that direct labor costs are a relatively small proportion of total costs in most manufacturing industries (about 25 per cent of total costs, for example, in automobile manufacturing), and in view of the more important fact that these costs will be largely shifted to the Government or to consumers in the form of higher prices, there seems to be little reason for expecting overtime rates to slow down war production. And the total cost of war production may not be increased greatly by the payment of overtime for hours in excess of 40 per week if such payment eliminates the necessity for in-

creasing basic hourly rates in war industries. If the payment of overtime helps to hold down basic hourly rates, it will facilitate the shift from war production back to peacetime production by keeping cost-price relationships more favorable to an early recovery.

Two other considerations should be borne in mind in an appraisal of our present hour laws. First, relaxation of present legislative hour standards would not affect most skilled workers, because they are covered by union agreements calling for time and one-half for hours worked over 40 per week. Such relaxation therefore would penalize only the unorganized, unskilled workers. Second, the present legal restrictions on hours may provide some check upon excessively long hours that are detrimental to the safety, health, and productivity of the worker. Just what the optimum (maximum production) work week is in American industry no one knows with certainty. It varies with the type of job and with the industry. The optimum work week in Great Britain has been found to be about 50 to 55 hours for most occupations, although in some jobs such as coil-winding and the making of fuse-bodies the optimum work week has been found to be 43 and 48 hours, respectively. Because of the greater speed of operations in American industry, the optimum is undoubtedly lower in this country than in England. A recent Princeton University survey indicates that the optimum work week for most American industries may be about 48 hours.

Recent attacks upon existing hour legislation in Congress have brought out some interesting facts. One of the most significant developments was the uniform opposition by business leaders and governmental officials in Washington to any changes in the hour requirements of the Fair Labor Standards Act. Messrs. Donald Nelson, William Knudsen, Ralph Bard, Assistant Secretary of the Navy, and Robert Patterson, Under-Secretary of War, all joined in opposing any changes in the present law. They all insisted before a Congressional Investigating Committee that the present hour standards were not holding back war production, nor leading to excessive costs. Mr. Bard testified that overtime payments on $56 billions of war contracts in 1941 did not involve more than a 7 per cent increase in labor costs. President Roosevelt recently quoted War Production Board figures to show that almost all war industries are now working many more than 40 hours per week—the average being nearly 50.

The question of wage policy is a perennial one in a capitalistic economy but it attracts popular attention primarily in periods of wide business cycle swings. The peculiar nature and importance of wages in our economic system, however, make the formulation of a national wage policy no simple or easy matter. In the first place, wages represent a cost of production to industry and as such must be given careful consideration in any wage policy. Second, wages represent a distributive share going to wage earners

ıd as such they directly influence onsumer demand and purchasing ower, which in turn, of course, milarly influence the course of the usiness cycle. Third, wages in a rice economy measure the relative ell-being of the wage earner group, hose standard of living fluctuates ore or less directly with the wages eceived.

Specifically the questions raised oout wages in a war economy inude the following: Should wages e increased, and if so by how uch? Should wages be geared ather rigidly to some cost-of-living ıdex? Should wages be "frozen" y law? What wage policy will help ıost in keeping down rising prices nd inflation? Recently attention as been directed to Canada's warme wage policy with the idea that might serve as a guide to Ameri-an wartime wage policy. Briefly ıe Canadian plan is an attempt to ontrol wages, prices, and inflation y tying wages rather rigidly to the ost of living through a system of age bonuses varying with changıg living costs.

A brief examination of the merits nd limitations of a cost-of-living uide to wage policy may be pertient. In the first place, if the inreasing shortage of consumer oods is the cause of the rising cost f living, a rise in wage rates based n these higher living costs would ot solve any problems; it would nly aggravate them. Such a wage olicy would neither hold down ination, protect labor's real wage, or aid the post-war readjustment eriod. The principal merit of a ost-of-living guide to wage policy is that it may hold down arbitrary and unreasonable demands for wage increases or decreases. It may thus provide some yardstick with which to measure or judge the reasonableness of wage demands. But beyond this point, the usefulness of a cost-of-living index as a guide to wage policy is subject to rather sharp limitations, considered either as an emergency wartime measure or as a permanent peacetime policy.

Some of these more important limitations of a cost-of-living guide to wage policy in wartime or peacetime are the following: (1) its usefulness is pretty well limited to business upswings; (2) as a sole guide to wage policy, it gives no recognition to labor's value productivity—it allows no possibility of labor progress in terms of advancing standards of living; (3) it does not consider the profits of industry—the ability of industry to pay; (4) it cannot be used in the determination of basic wage rates in the first instance even if all labor were the same grade, and of course it cannot have any usefulness in the establishment of wage differentials for different grades of labor; (5) it would not therefore eliminate the necessity for collective bargaining in the determination of basic wage rates, wage differentials between different skills, and bargaining over other non-wage matters such as hours, working conditions, closed shop, etc.; (6) and lastly there are at least two serious defects of a cost-of-living guide to wage policy in view of certain functional aspects of wages in a price economy. One

function of wages in a price system is to provide an incentive to output; gearing wages rigidly to a cost-of-living base would seriously interfere with this function. A second function of wages, considered as a competitive price influenced by the relatively free play of demand and supply in the labor market, is to distribute the labor supply in accordance with industrial or national needs. Some fluctuations in wage rates, therefore, entirely independent of cost-of-living changes may be necessary to correct labor surpluses and shortages due to wartime activities or seasonal, cyclical, or secular changes in industry. Of course, in wartime the alternative to this functional aspect of wages is compulsory rationing of labor.

We have indicated that an acceptable wage policy should at least serve: (1) as a control measure to help hold down a runaway period of inflation; (2) as a protective measure to help maintain labor's real wage and standard of living; (3) as an emergency measure to help ease the post-war readjustment period. We have also indicated that a national wage policy based on changing living costs would not meet these objectives.

The principal reliance for keeping down prices, profits, the cost of living, and the necessity for wage increases in the war period must be placed on government fiscal policy. The government must exert every effort to control prices by limiting consumer demand to the country's capacity to produce nonwar goods. This means that heavy taxation and widespread sales of "baby bonds" to consumers and wage earners must be used to dry up excess consumer purchasing power from whatever source derived. If this is successful the question of wage policy in the war period will be largely answered. Only such wage changes as are necessary to equalize demand and supply in the labor market will be needed. No guide to wage policy such as the cost of living or employer profits would be pertinent.

In so far as government fiscal policy fails to control prices, business profits, and living costs, it is suggested that labor's share in these temporary profits should take the form of temporary bonuses rather than permanent wage-rate increases. Such wage increases should probably take the form of bonuses paid in war savings bonds, to be held in trust for the employee until the war is over. If this policy were followed, it would serve the dual purpose of holding down consumer purchasing power and aiding the post-war readjustment period. Permanent wage-rate increases would increase the difficulties of the post-war readjustment period, because they would be likely to create cost-price relationships unfavorable to employment and to early business recovery. The liquidation of these bonds in the post-war period would stimulate consumer demand at a time when it would be greatly needed. Mr. J. M. Keynes has outlined a national wage policy based on a wage-deferment plan somewhat similar to the above.

Recently the question of a national wage policy based upon some kind of rigid price-control law has been receiving a great deal of popular at-

tention. At the present time (May, 1942) wages are almost the only important prices that have not been brought under rather rigid legislative or administrative price-control. The principal argument for including wages in an over-all price-control program has stressed the importance of wages as a cost of production—that if wages are uncontrolled, prices will have to advance in order to cover the higher costs of production. This advance will lead to demands for higher wages to cover increased living costs, which will again send prices upward.

The principal arguments against including wages in some rather rigid price-freezing regulations have stressed the fact that higher wages do not necessarily mean higher labor costs—that increasing labor productivity may offset any tendency toward higher unit labor costs, and that the proportion of labor costs to total costs is rather low in many industries. In addition, labor points to the recent large profits that many war industries have been receiving. Two recent studies of the U. S. Bureau of Labor Statistics tend to support this general position of labor with reference to the relation between wages and costs. In a study of wage and price trends during 1941, Dr. Lubin found that the commodities whose prices rose first and fastest had the lowest labor costs, and that almost without exception price increases during 1941 *preceded* wage increases. The other Bureau of Labor Statistics study was on labor productivity in war industries. It was found that in manufacturing as a whole, man-hour output increased 8 per cent in 1940 over that of 1939, and unit labor costs went down 3½ per cent. In other words, wage increases in 1940 were more than offset by increased output per man-hour. In 1941, output per man-hour was 10 per cent higher than in 1940, and unit labor costs were only 2 per cent higher.

While there are certainly elements of truth in both of these arguments, both seem to overlook the much more vital issue in the problem of wage and price control, namely, the consideration of wages and profits as distributive shares influencing consumer demand rather than as primarily a cost of production. The strongest argument for some wage-and-price-control measures in the war period centers around the necessity for limiting consumer demand. It is therefore extremely doubtful how far government price-fixing will be successful as an effective device for controlling prices, wages, profits, and cost of living unless it is coupled with the strongest governmental measures for limiting consumer demand.

Entirely aside from the general question of desirability of some wage-control measure, the administrative problems involved in an attempt to enforce rigid wage limits would be tremendous. The usually suggested controls would "freeze" existing wage situations for the duration of the war. But there is no suggestion that workers be "frozen" in their present jobs, i.e., that they be prevented from moving from places and industries in which wages

are lower to those in which they are higher. And if employers wished to make some wage advances beyond those specified in a wage-control law, say to attract new workers or hold existing workers, they could do so by promotions, reclassifications, bonuses, overtime, etc.—none of which would be prohibited under most proposed "wage-freezing" plans. In other words, the implications of wage-freezing clearly extend such a program to one of freezing the worker in his job and compulsory rationing of labor.

A concluding section on the industrial relations policy in wartime seems necessary in an article of this kind. Two primary questions are involved: (1) How serious have strikes and interruptions to war production been? (2) What should public policy be toward the problem of industrial disputes in wartime?

From the beginning of the defense program down to April, 1941, 96 strikes occurred in defense industries. These strikes involved directly 260,917 men who were out an average of 13 days, making a total number of man-days lost of a little over 3 millions. Taking the entire year 1941, the number of man-days lost in *all* strikes in *all industries* amounted to approximately 30 millions. This is to be compared with 160 million man-days lost in 1941 because of the common cold, and 460 million man-days lost because of industrial accidents. At no time in the defense period have as many as 1 per cent of all employed wage earners been on strike. And since Pearl Harbor (Dec. 7, 1941) strikes in war industries have all but disappeared, amounting to less than 6/100 of 1 per cent of war employment for the first quarter of 1942. The conclusion as to the seriousness of strikes in war industries, both before and after Pearl Harbor, seems to be that they have been magnified by the press, radio, and various interested groups out of all relation to their true importance.

Two considerations should be borne in mind in the formulation of public policy toward strikes and industrial disputes. The first is that the responsibility for industrial disputes and work stoppages is usually shared by both management and employees and therefore should not be uniformly assessed against the employees. The second consideration is that, contrary to popular opinion, workers rarely go out on strike over trivial matters. Sixty-five per cent of all defense strikes last year were over wage disagreements—a basic factor in wage-earner welfare.

From the social point of view, there is no question as to the desirability of eliminating losses in production caused by industrial disputes. The only question at issue, therefore, is the best or proper method of securing this end. There are two broad approaches to the problem of adjustment or settlement of industrial disputes. The first is adjustment through individual or collective bargaining between the workers and employers concerned; the second, adjustment and settlement through the aid of governmental agencies. The most desirable and generally the most satisfactory adjustments of industrial disputes are those settlements negotiated di-

ectly between the workers and employers concerned, and this means 1 most cases through the process of ollective bargaining. But when differences cannot be reconciled by irect negotiation between the disuting parties, some form of governnental aid or action seems to be alled for. Such governmental aid r intervention in the field of inustrial relations may take the form f mediation, conciliation, voluntary r compulsory arbitration—with the se of government Labor Boards to arry out these functions.

The tri-party National Defense Mediation Board established in March, 1941, specifically to deal with he problem of industrial disputes in lefense industries was to function rimarily as a mediation board. It ould encourage voluntary arbitraion and could publish fact-finding esults and recommendations, but it ould take a hand in industrial disutes only when they were referred o it. Of the 94 cases closed by the Mediation Board, approximately ⅔ were settled by agreement between he disputing parties (mediation). The following principles were estabished by the Mediation Board in the ourse of adjusting these disputes: (1) that agreement between the disuting parties was by far the most atisfactory method of settling inlustrial disputes; (2) that union ecurity should be guaranteed and rotected against employer hostility; 3) the avoidance of any clear-cut olicy on the all-union closed shop —the principle of deciding each case n its merits; (4) the avoidance of ny specific wage policy—the only rinciple established being that wage disputes should be considered in the light of competitive conditions in the industry, the cost of living, and the ability of industry to pay. The National Defense Mediation Board really came to an end with the resignation of the C.I.O. members as a result of the captive coal mine dispute in December, 1941.

The present War Labor Board was established by executive order January 12, 1942. It is a tri-party Board—4 members each representing labor, management, and the public. It was established to effectuate the voluntary agreement entered into among labor, management, and the government to avoid all work stoppages for the duration of the war. The Board is thus authorized to make a "final determination" of all disputes, using mediation and arbitration. It may take jurisdiction over any dispute on its own initiative. Mediation of industrial disputes by the Board so far has settled about 85 per cent of the cases coming before it. In only 2 instances has there been defiance of Labor Board orders (both by management), and in each instance the defiance resulted in the taking over of the plants by the government.

There are several unresolved problems facing the Board at the present time. There is urgent need for clear-cut substantive policies rather than attempts to decide each case on its merits. A national wage policy must be drafted for Board guidance in wage disputes. Board decisions to date have usually granted some wage increases, mainly based on tests of prevailing wages, competitive conditions, or cost of

living increases. The recent message of President Roosevelt on wage stabilization must be clarified and made more specific before it can be of any value as a guide for the Labor Board in wage disputes. A national labor policy on the closed shop must be established soon if this highly controversial issue is not to disrupt industrial relations seriously. The World War I Labor Board "froze" the closed shop as it existed in industry for the duration of the war, thereby removing it as a disturbing factor in industrial relations. So far the present Board has granted union demands for some kind of union security by requiring hostile managements to include a "maintenance-of-union-membership" clause in their labor contracts. This, of course, is not at all equivalent to the all-union closed shop. The Labor Board has defended these decisions on the ground that unions by entering into a wartime agreement to give up their right to strike had placed themselves wholly at the disposal of an impartial tribunal, and that they must therefore be given some kind of security protection or face disintegration in hostile employer plants. All these issues are likely to come to a head in the present "Little Steel" negotiations over union demands for a $1-per-day wage increase and the union shop.

In conclusion, a final observation may be made relative to some recent Congressional proposals to outlaw strikes for the duration of the war as a means of securing industrial peace. Past attempts to legislate industrial peace, both in this country and abroad, by enacting compulsory arbitration laws have overwhelmingly demonstrated that this is not the way to industrial peace in a democracy. In this respect it is highly significant that leaders of industry, labor, and the government have all joined in opposing such legislation as the Reed and the Smith bills, which would outlaw strikes for the duration of the war.

Corn-Belt Agriculture and the War

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Agriculture can make two major contributions to the war effort: first, step up production in an attempt to meet increased wartime demands; second, supply its share of the man power needed for the armed forces. The agricultural policy of the nation is rapidly being adapted to wartime needs. Since the supplying of man power is a contribution not peculiar to agriculture, we shall consider here only the adaptations of production, which may be summarized as follows:

1. *Increase the production of cer-*

ain commodities for which the demands have been increased by developments connected with the war. n Illinois the principal products in his category are soybeans, hogs, ggs; and milk for the manufacture f evaporated milk, cheese, and dry kim milk. A new crop is being introduced in an experimental way—he castor bean. In other sections f the country the production of empseed is being expanded to make ossible an increased output of hemp iber in 1943. Soybeans are being ncreased in order to produce oil vith which to replace a part of the egetable oils we formerly imported rom the regions of the western Pacific now occupied by the Japanese, and to produce additional proein supplement (soybean oil meal) ieeded in the increased production f animal products. The livestock roducts are needed for export to ur allies through the operations of he lend-lease program. The castor eans are needed for the production f oil which has a number of inlustrial uses; the hemp is to replace itally needed fibers which previusly came largely from the Philipine Islands.

2. *Use the rest of the land, with he qualifications mentioned in 3 and 4 below, for the production of the rops which will provide the maxinum amount of feed.* Obviously, roduction of livestock cannot be increased without using more feed. The outbreak of the war found us vith large reserves of feed grains nd wheat, but expanding livestock roduction will quickly absorb these. n much of Illinois, maximizing the roduction of feed may mean the growing of a larger acreage of corn. Corn production has been held in check somewhat by the allotments on which are based the special corn payments made to cooperating farmers by the Agricultural Adjustment Administration. These allotments are based largely on the historical use of the land. The AAA Act of 1938 provides that under certain conditions "marketing quotas" may be imposed on corn production, if, in a referendum, two-thirds of the commercial growers approve. However, the Secretary of Agriculture announced in April, 1941, that there would be no marketing quotas for the 1941 corn crop, and he subsequently made a similar announcement in regard to the 1942 crop. Allotments were increased 10 per cent for the 1942 corn crop. To effectuate fully the policy of allowing each farmer to maximize feed production, the restricting influence of the allotments needs to be eliminated. A consideration which may have held back the AAA from eliminating allotments for the 1942 corn crop was the desire to effect an increase in the acreage of soybeans. Since corn and soybeans compete for the use of land in many sections of the Corn Belt, it was felt that, with no corn allotments, farmers would increase acreages planted to corn at the expense of soybeans. With reserve stocks of corn being rapidly reduced, it is quite likely that, before the 1943 crop is planted, present restrictions on corn acreages may be further relaxed, if they are not eliminated, for the duration of the war.

A more difficult problem in maxi-

mizing feed production is connected with the wheat crop. Although wheat has traditionally been looked upon as a bread-grain crop, it is also a good livestock feed. Favorable crops since 1937, export difficulties caused by our high price level in relation to world prices for this commodity, and the closing of markets by the war have left us with a vast stock of wheat. Assuming a favorable harvest in 1942, this country will have on hand about two years' supply of wheat for normal uses. As a result of AAA restrictions, the production of wheat continues at the minimum acreage level permitted by law—55,000,000 acres. Granted that wheat is a bread grain and not a feed grain, this is a reasonable wartime policy, for there is no need of using land, labor, and capital resources for the production of a product of which there is a superabundant supply. But if surplus wheat is regarded as a feed, then the policy of restraining production in areas where wheat is the heaviest yielding crop is not logical. The problem is further complicated by the legal requirement that loans be made to farmers who cooperate in the AAA program at 85 per cent of "parity price." This loan value is well above the price which wheat is worth for feed in view of the present price of corn. So far as existing stocks are concerned, the government has reconciled this dilemma by the adoption of a two-price system in connection with the sale of defaulted loan wheat. Wheat is being sold for feed at prices in line with the price of corn. But this does not settle the question of the capacity use of land best adapted to wheat. The only solution which this writer sees to the problem is: Granted the maintenance of 85 per cent of parity price on wheat to be used as food, allow farmers to produce any wheat in excess of this for feed or for sale as feed. The Secretary of Agriculture in an address delivered at Enid, Oklahoma, late in April, 1942, suggested this policy but within the limits of the 55,000,000-acre total. This writer would go further and allow unrestricted production of wheat for feed use but without price support for such wheat. This plan would permit the areas where alternative crops will not produce as much feed as will the wheat crop to increase wheat production. Other wheat-growing areas which can produce more feed with other crops would likely shift away from wheat, if feed wheat is priced on a corn basis.

3. *Carry out the production policies outlined in points 1 and 2 without permanent damage to the soil.* In recent years, Corn-Belt agriculture has been adjusted to "conservation farming." Acreages of grain crops have been reduced and acreages of legumes, which in general are soil-building, have been increased. A sound wartime production policy will permit the use of natural or stored-up fertility (depletion) but should not involve permanent damage. One is largely a fertility question; the other a problem of physical destruction, e.g., erosion. Large areas of good soils in the Corn Belt are subject to destructive erosion, and these lands

may easily be damaged permanently by wrong cropping practices. To prevent such damage, campaigns for increased production should not encourage the planting of greater acreages of crops which increase the possibility of erosion on land subject thereto and should encourage the adoption of practices which will limit the erosion. Since soybeans loosen the soil and encourage erosion of rolling land, care must be taken in expanding the acreage of this crop on such land. Also, everything possible should be done to encourage farmers to follow erosion-control practices on such land, such as farming on the contour. It is likely that the activities of the AAA could advantageously be directed to making payments which would encourage the adoption of such practices. The public has a vital stake in the preservation of the soil; it is the source of the nation's food supply in the long run. Payments designed to overcome hindrances to the adoption of soil-saving practices may be more easily justified than payments intended to restrict production or to maintain income, especially in wartime when production is needed and incomes are at higher levels. Certainly it is desirable that wartime increases in production should be accomplished without permanent damage to our lands.

4. *Carry out the production policies outlined in 1 and 2 in 1942 and 1943 so as to get higher yields for the duration of the war.* This assumes that we will need heavy production over a period of years. If heavy production were desired for a single year, the proper procedure might be to plant all of the land in the grain crops that yield the greatest output. But if production over a period is desired, then an adequate acreage of soil-building crops must be grown in order to maintain yields of grain crops in later years. The proportion of the land in such crops would vary from area to area according to the quality of the soil. In 1942 the AAA established a rule that 20 per cent of the cropland on cooperating farms must be in soil-building crops in an effort to encourage farmers to farm in such a way that high yields could be maintained in subsequent years. If some practical scheme could be devised to vary this proportion on different farms in accordance with variations in inherent productivity it would be desirable.

Incentives

To encourage expansion in output the government has relied largely on price incentives. In view of the large number of individual farms involved, contracts with individual farmers are not practicable. In April, 1941, when lend-lease funds became available, the Secretary of Agriculture announced that he would support price levels for hogs, dairy products, eggs, poultry, and certain canning crops. Subsequently, Congress adopted the so-called "Steagall Amendment," which provided that any price support offered to stimulate production must represent at least 85 per cent of parity price. Heavy purchases for lend-lease account, together with the strong trend caused by rising consumer in-

come, have pushed prices above the support levels. In fact, the prices of some of these products, hogs for example, have risen above the 110-per-cent-of-parity level at which a price ceiling may be set. When the need for stimulating the production of soybeans developed, a minimum price of $1.60 per bushel was guaranteed for the 1942 crop.

All students of the economics of agriculture know that favorable prices or price relationships are powerful incentives to increased output. An increase of output above usual levels usually involves added costs; an increase in prices overcomes the resistance to incurring such costs. There can be no question as to the desirability of "incentive forward pricing" in getting increased output. Moreover, in view of the level of present guarantees the government is not taking large risks. For example, the support price for hogs is about $9.25 per 100 pounds whereas the current price is $13.50, yet the announcement of the $9.00 price set in motion the forces which led to a rapid increase in hog production.

The incentive which has created the greatest controversy in farm circles is the maintenance of a price on feed, favorable to feeders, through sales of defaulted loan stocks of corn and wheat by a government agency, the Commodity Credit Corporation, at about 85 per cent of the parity price of corn. Farm leaders committed to the parity principle have vigorously opposed this policy, insisting that the livestock-feed price structure should be geared to the parity price of corn. This controversy has been carried to Congress, both houses of which have passed bills instructing the Department of Agriculture not to sell corn or wheat at prices below parity. Obviously, this is a political controversy regarding what constitutes "fair prices." From an economic standpoint the question is: What corn price will maintain a ratio between the prices of corn and hogs which will stimulate the desired increase in the production of the latter? On April 15, the farm price of corn in the United States was about 80 cents per bushel and the farm price of hogs was $13.48 per 100 pounds. Thus the price of hogs was 16.8 times the price of corn. This is a higher ratio than is necessary to stimulate increased production of hogs. The parity price of corn was then about 96 cents. If corn should rise in price to this level and hogs remain at the April figure, then the ratio between their prices would be about 14 to 1. This would not retard increases in production, but with hog prices now held down by retail price ceilings on pork products and the possibility of heavy increases in supplies of hogs beginning next October, it is obvious that the price of corn cannot rise far above parity, even if it can go so high, without narrowing the ratio between corn and hog prices to a point which might begin to restrict hog production.